The Civil Service Superannuation Board

2004 Annual Report

For more information...

You may make an appointment to view any of the following at The Civil Service Superannuation Board (Board) office, Monday to Friday (except holidays) from 8:00 a.m. to 4:30 p.m.:

- A copy of The Civil Service Superannuation Act (Act) and all amendments
- The Annual Information Return submitted each year to the Pension Commission of Manitoba
- A copy of the latest Actuarial Valuation Report

Upon request, the Board will provide members, spouses or authorized representatives with detailed information and explanations regarding benefits payable in the event of a member's retirement, death, marriage separation, or termination of employment.

Client services provided throughout Manitoba:

Individual Consultations

- Private, personalized information service
- Appointments should be made in advance to avoid delays

Pre-Retirement Planning Seminars

- One day sessions for employees planning to retire
- Discussion includes benefits and lifestyle adjustment
- Spouses are encouraged to attend

Benefit Information Seminars

- Two to three hours duration
- Focus on pension and group insurance

To arrange for any of the above services in your area please contact:

The Civil Service Superannuation Board

1200-444 St. Mary Avenue
Winnipeg MB R3C 3T1

Telephone: 204-957-8722
Fax: 204-945-0237
Canada-Wide Toll-Free Number: 1-800-432-5134

Internet site: www.cssb.mb.ca
E-mail: askus@cssb.mb.ca

Cover photo courtesy of Travel Manitoba

Contents

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Letter to the Lieutenant Governor 2
Letter to the Minister 3
Board and Standing Committee Members 4
The Civil Service Superannuation Board 5
Your Pension Plan 5
Highlights 6
Message from the Chair 7
Message from the General Manager 8
Investment Committee 9
Investment Report 10
Investment Overview 18
Strategy and Outlook 19
Investing for Growth and Stability 19
Member Services 20
Members/Retirements 21
Employees/Former Employees 22
Paying Your Benefits 24
Employee Contributions/Employer Payments 25
Cost-of-Living Allowance 26
Funding of Pension Benefits 26
Administration and Investment Cost 28
Six-Year Comparative Statistics 29

Financial Report

Management Report 30
Report of the Office of the Auditor General on The Civil Service Superannuation Fund 31
Exhibit A - Statement of Net Assets Available for Benefits 32
Exhibit B - Statement of Changes in Net Assets Available for Benefits 33
Notes to the Financial Statements 34
Schedule 1 - Statement of Changes in Net Assets Available for Benefits 44
Schedule 2 - Schedule of Contributions 45
Schedule 3 - Schedule of Investment Income 47

Letter to the Lieutenant Governor

Minister Responsible
for The Civil Service Superannuation Act

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

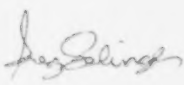
April 22, 2005

Honourable John Harvard
Lieutenant Governor of Manitoba

May It Please Your Honour:

As Minister Responsible, I have the privilege of presenting for the information of Your Honour, the 66th Annual Report of The Civil Service Superannuation Board for the calendar year ended December 31, 2004.

Respectfully submitted,



Honourable Greg Selinger
Minister of Finance,
Minister Responsible for
The Civil Service Superannuation Act

Letter to the Minister

Manitoba

The Civil Service
Superannuation Board

1200 - 444 St. Mary Ave
Winnipeg, MB, R3C 3T1
CANADA

(204) 945-8722
Canada Toll Free 1-800-432-5134
Fax No. (204) 945-0217

April 22, 2005

Honourable Greg Selinger
Minister of Finance,
Minister Responsible for The Civil Service Superannuation Act

Sir:

In conformity with the provisions of The Civil Service Superannuation Act, I am pleased to forward to you, the Minister Responsible for The Civil Service Superannuation Act, the 66th Annual Report of The Civil Service Superannuation Board.

This report covers the period January 1, 2004 to December 31, 2004 and includes a review of the Board's activities for that period as well as the Report of the Auditor General and attached audited financial statements for that period.

Respectfully submitted,

Gary N. Coopland, Chair
The Civil Service Superannuation Board

Board and Standing Committee Members

The Civil Service Superannuation Board

Chair
Gary N. Coopland
Retired, Vice-President Investments
The Great-West Life Assurance Company

Employee Representatives

Ray Erb
Staff Representative
Pensions & Benefits
Manitoba Government and General Employees Union
Civil Service Representative

Katherine Johnson
Manitoba Finance
Civil Service Representative

Bill Loxton
Employee Compensation & Benefits Department
Manitoba Hydro-Electric Board
Manitoba Hydro Representative

Susan Rusk
Intergovernmental Affairs and Trade
Civil Service Representative

Employer Representatives

Tom Bleasdale
Retired
Assistant Deputy Minister of Labour

Gabriel Forest, F.C.A.
Chartered Accountant

Carmele Peter
Solicitor
Aikins, Macaulay & Thorvaldson

Dr. G. Les E. Ullyot
Family Physician
McPhillips Medical Group

Management

Robert H. Covernton, General Manager

Allen Borle, Director, Finance
Robert Derksen, Director, Communications and Client Services
Dean Lash, Director, Investment Communications & Management Services
Robert Riddell, Director, Management Information Systems
Bruce Schroeder, Assistant General Manager and Director of Administration

Lindsey Fuller, C.F.A., Chief Investment Officer
Ellement and Ellement Ltd., Consulting Actuary

Standing Committees:

- Compensation Review Committee
- Finance and Audit Committee
- Investment Committee

The Civil Service Superannuation Board

The Board has the fiduciary responsibility for the administration of the Plan and management of the investment funds in the best interest of all present and future Plan members, pensioners and beneficiaries. It is also responsible to:

- Ensure that staff fulfil the investment and administrative obligations set out in the Act and comply with the requirements of both the Pension Benefits Act of Manitoba and the Income Tax Act
- Delegate the day-to-day management to the General Manager and staff
- Provide overall direction and approval of policy items

These duties are vested in four members that are elected by participating employees, and five members including a chair that are appointed by Government. The Board meets 10 to 12 times per year.

As the Plan trustee, the Board is required to:

- Manage The Civil Service Superannuation Fund (Fund) in accordance with the rules of the Pension Plan, governing legislation, and common law in the interest of Plan members and their beneficiaries
- Obtain an actuarial valuation every three years
- Regularly review its investment policy
- Obtain an independent audit each year
- Prepare an Annual Report

The day-to-day management of investment assets and delivery of pension and insurance benefits is accomplished by a dedicated and diverse team consisting of 50 staff members.

Your Pension Plan

Your Plan is a "defined benefit" plan which means that your pension is based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on your years of service and average salary. Being a defined benefit plan means that a fixed percentage of salary is contributed yearly by participating members. For these contributions, pension benefits are earned. While some employers presently match employee contributions, others are obligated to fund their share of benefits paid in the future.

Investment returns are not directly related to the amount of pension a member will receive. Good investment returns are necessary to secure the Fund's ability to continue to meet its current and future obligations to pay benefits, and are the major contributor to surplus.

The Plan allows for retirement after age 55 assuming the member has at least ten years of qualifying service. Unless the person is age 60 or older, or has achieved the Rule of 80 (age plus service), there is a reduction for early retirement. Members who reach age 65 may receive a pension providing they have at least one year of service.

All employees who are employed full time are required to join the Plan. Seasonal and part-time employees are required to join after meeting an earnings test (when they have earned 25% of the Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan in each of two successive calendar years).

Highlights

		2004 (*)	2003 (*)
Financial	Rate of Return on Investments	13.71%	13.44%
	Investments at Market Value	2,946,144	2,625,553
	Net Investment Income	99,857	88,475
	Current Period Change in Fair Value of Investments	229,857	202,014
	Employee Contributions	77,755	72,744
	Employer Payments	89,725	83,080
	The Province of Manitoba Unfunded Pension Liability Trust Account	139,163	121,027
	Pension Payments	181,004	166,733
	Refunds and Transfers	12,930	12,167
	General Expenses - Net	1,358	1,349
	* $Thousands unless otherwise noted		

		2004	2003
Membership	Non-Retired Members	29,611	28,132
	Pensioners and Other Recipients	12,999	12,454
	Total Members	**42,610**	**40,586**

Other Plans Under Administration	Manitoba Telecom Services Inc.^	6,469	6,409
	Money Purchase Accounts Plan	1,302	1,268
	Centra Gas^	906	910
	Winnipeg Child and Family Services^	739	n/a
	MLA's^	120	120
	Total Membership (all Plans)	**52,146**	**49,293**
	^ Active and Retired		

Message from the Chair

Gary N. Coopland

One interpretation for the term superannuation fund is that it is an investment vehicle that operates primarily to provide benefits for retirement. For this Board, that means the Fund must be managed with many checks and balances supported by information systems to govern how prudent decisions should be made. With the support of the Board, the staff becomes familiar with changing market trends through ongoing education, research and networking initiatives. This results in up-to-date procedures and governance policies that are used as guidelines to ensure the Fund is managed effectively.

Policies are monitored regularly by a group of investment and accounting professionals to ensure they are followed. On a quarterly basis, the status of compliance is reported to the Board through detailed reports. Accountability, transparency and good governance remain key goals in the ongoing stability and management of your Fund.

Effective management includes the continuous process of making service improvements. Through enhancements to the Board's online services, more and more information can be accessed from the comfort of your home while at the same time preserving the quality and diversity of the services offered by the Board. One online service, the Pension Estimator, was initially introduced in 2002 to 2,350 registered members who requested more than 24,000 different estimates. Two years later, nearly 64,000 estimates were requested by 5,650 registered members. These estimates use personal information and are performed by registered members in a secure Internet environment. The Board's new website, due to be released in 2005, will include enhancements to online services as well as more detailed information on how your money is invested.

Investments performed extremely well once again this year. A Fund return of 13.71% in 2004 was more than double the estimated actuarial requirement. While this level of investment returns is extremely pleasing, they may not be sustainable for long periods of time. When surpluses are generated, they can be reserved for periods when investment returns are not as high or they can be used to enhance benefits. Being proactive about the future can help reduce the threat of trimming benefits and costs in turbulent times.

A portion of this year's value added performance was a direct result of the Board's participation in private equity. These investments are not publicly traded and are less liquid than most investments. As a result, the Board takes caution by ensuring that they only invest in private equity after a lengthy process of due diligence and then only when partnered with those who have a stake in the investment, and are also experts in their respective fields. Furthermore, the Board requires active representation in the decision-making processes of these investments and generally has a prior longstanding relationship with the principles. These assets are valued annually by independent external professionals, which allow the Board to be confident in exactly how their private equity holdings are performing. At December 31, 2004, the Board has four such investments representing just over 3.42% of Total Fund assets, the largest being an oil and gas company in Alberta.

The Board has created, through retention policies and an ongoing commitment to professional development, a strong team of benefits and investment management experts. On behalf of the Board and myself, I would like to thank these team members once again for their dedication, professionalism and commitment to unparalleled quality so that you can continue to enjoy a superior benefits program.

Message from the General Manager

ROBERT H. COVERNTON

The Board has a major role in the financial well being of over 42,000 Fund members (52,000 including all Plans under administration), their families and beneficiaries who expect it to deliver on the pension promise. A steady stream of pension income from a strongly managed defined benefit pension program is a way to achieve this financial stability during retirement.

The Board continues to be diligent to ensure measurable standards are in place. Their goal is to earn above-average rates of return over a diversified portfolio. At a minimum, the Board's aim is to earn the Actuary's estimated required rate of return. Any performance above this benchmark can either be used to fund future benefits improvements or as a reserve for years when investment returns are not as favourable.

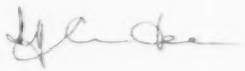
The strength of this program was evident once again in 2004 by the Fund's 13.71% investment rate of return. During the year, more than $105 million was added into the pool of money over and above what would have been expected had the Fund managers not been active in managing your money.

While the Board believes that its communications to members has been exceptional, we would like to focus on improving accountability through detailed audits and independent reviews by other practitioners. Your Board is comprised of skilled individuals and professionals who work tirelessly through Board and committee meetings with only one goal in mind - the best interest of stakeholders of the Plan.

Ongoing commitment to professional development is a key component to ensuring the Plan continues to provide you with the best level of benefits. Education and networking opportunities are supported by the Board in an effort to help this happen. To keep its focus on the future, the Board must plan to maintain its structures, processes and operations to support and encourage growth. This is accomplished by ensuring staff have the optimum combination of knowledge, skills, training, information and tools they need to succeed in continuing to deliver outstanding service on a consistent basis.

The Board is dedicated to maximizing the value of technology in innovative, proactive and personalized services to members, employers and other stakeholders. Today, the Internet has created a conduit through which information may be securely transported with relative ease. Taking advantage of creative systems development and available communications protocols, the Board has provided its stakeholders with the means to obtain personal benefits information on a real-time basis from any computer in the world with an Internet connection. We want to encourage members to utilize electronic services while continuing to provide answers and information in person, in printed form or over the phone.

Ultimately, our goal is to provide accurate, timely, personal and attentive service in a cost effective manner, while keeping in mind the importance of providing outstanding service which consistently meets member expectation. I am very privileged to be associated with a staff that works diligently towards our goal of continuing to deliver the pension promise into the future.



Investment Committee

Members of the Investment Committee are appointed by the Lieutenant Governor in Council based on their investment expertise, legislative requirements or, in the case of the employee representative, elected by the employee representatives of the Board.

Committee Members

Gary N. Coopland
Chair, Investment Committee^ and Board
Retired, Vice-President Investments
The Great-West Life Assurance Company

Dick Archer
Chair
I.G. Investment Management Ltd.*

Ewald Boschmann
Deputy Minister of Finance
Province of Manitoba^

Robert H. Covernton
General Manager
Board^

Charlie Curtis
Retired, Deputy Minister of Finance
Province of Manitoba*

Ray Erb
Manitoba Government and General Employees Union
(employee representative)^

Peter G. Munro
Executive Vice-President, Chief Investment Officer
The Great-West Life Assurance Company*

Stan Susinski
Retired, Chief Investment Officer
Alberta Finance*

The Investment Committee also manages the assets of the Manitoba Hydro Employer Fund and three Centra Gas portfolios. Manitoba Hydro appointed the following person as their representative to those committees in conjunction with the above members.

Vince Warden
Vice-President, Finance and Administration and CFO
Manitoba Hydro-Electric Board

* Appointed based on investment expertise
^ Required by legislation

Investment Report

Policies and Procedures

The Fund's Statement of Investment Policies and Procedures (SIP&P) guides the investment decision-making process. This document is created by independent consultants and matches the Fund's assets with its liabilities, now and into the future. Upon its approval by the Board, this document is put into effect and is monitored for compliance. The SIP&P includes such things as appropriate asset mix limits, investment grade quality, holding limits, investment objectives, valuation procedures and investment management structure.

During 2004, the SIP&P was reviewed by independent consultants. After a lengthy process of due diligence and numerous meetings with the consultant, a new SIP&P was approved and will be implemented in April 2005.

Asset mix is the single most important factor determining pension fund performance. Different risk elements relating to market volatility and potential returns are factored into an investment decision. Investments that produce lower returns are generally a result of lower risk or volatility. In order to optimize returns and reduce investment volatility, Fund assets are diversified among the various asset classes and across the world's economic regions.

Long-term Success of Investment Policy

The ultimate success of the Fund's investment policy is measured by how well it meets the long-term obligations of its members. An Actuarial Valuation on the Fund, which is conducted every three years, is the best way to measure this obligation. With the exception seen in 2002, the Fund's five-year moving rate of return has exceeded actuarial requirements consistently over the past 30 years. Even in 2002 when the Fund's rate of return may have been below required levels, it was one of the best performing pension funds in Canada. The following chart displays how well Fund performance has me its test.

Five-Year
Moving Average

Governance

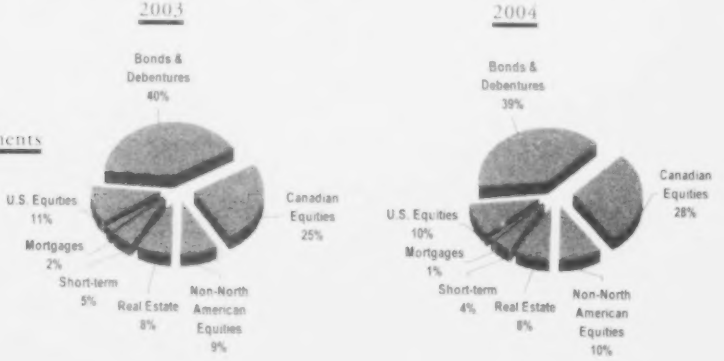
Governance continued to be at the forefront of initiatives during the year. At the beginning of 2004, the Board engaged an independent accounting firm to conduct its first AIMR Verification Audit. The Board received an unqualified opinion that its methodology for calculating Fund rates of return was being performed in accordance with CFA Institute (AIMR) Standards. This audit was conducted once again in early 2005 and will continue on an annual basis.

Many investment policies were updated and approved by the Board and its Investment Committee throughout the year. These included:

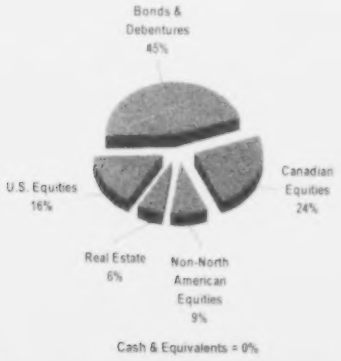
- Proxy Voting Policy and Guidelines
- Investment Manager Mandates
- Statement of Investment Policies and Procedures
- Soft Dollar Standards
- Conflict of Interest and Standard of Conduct Guidelines
- Professional Conduct Policy

These policies are monitored regularly and independently by a department of investment and accounting professionals. Once each calendar quarter, the Board and its Investment Committee receive compliance reports which provide useful information and assist them in meeting their fiduciary responsibilities.

Fund Investments



Investment Policy



Asset Classes and Their Performance

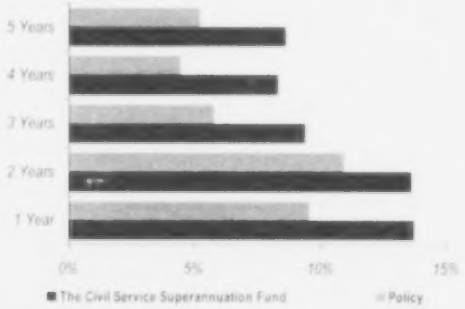
Calculation Methodology

The returns are time-weighted rates of return before fees and expenses. They are calculated in accordance with the methodology recommended by the Association for Investment Management and Research (AIMR), and have been audited by Deloitte & Touche LLP. AIMR is now referred to as the CFA Institute.

Total Fund

The return of 13.71% was the best the Fund has earned in nearly a decade. This lifted the five-year moving average to 8.60%, remaining well in excess of estimated actuarial requirements. In addition, the Fund's investment returns in 2004 exceeded their policy, or expected return of 9.54% over the same period. This performance was a result of above average security selection, the underweighting of U.S. equities, very favourable performance from the Fund's oil and gas company, and the overweighting towards foreign equities. Each of these contributed to the 417 basis points (bps) of outperformance when compared to the Fund's policy. All asset classes that the Fund was invested in experienced positive returns for the year.

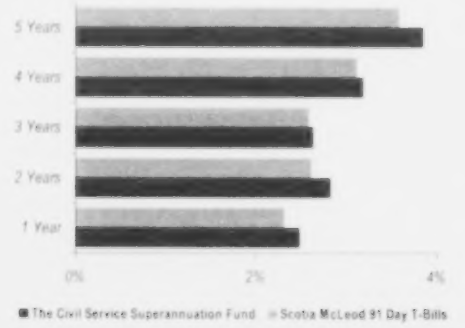
Total Fund



Cash and Short-term

The money market portion of the Fund generated a return of 2.48%, which resulted in an 18 bps outperformance over the Scotia McLeod 91-Day T-Bills Index.

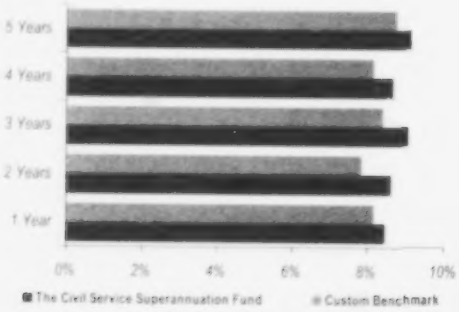
Cash and Short-term



Bonds and Debentures

Bond yields experienced some volatility over the year and prices finished slightly higher. The bond portfolio was able to add value through credit tightening and yield curve flattening. In addition, an overweight position in corporate product benefited from a general narrowing of corporate spreads against Government of Canada bonds.

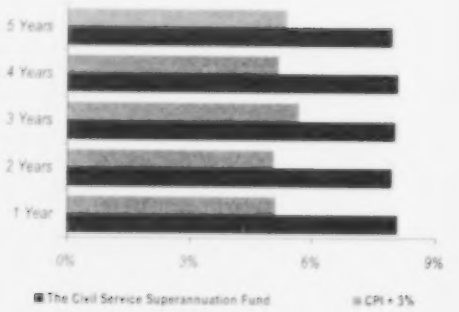
Bonds and Debentures



Real Return

Products such as Index-Linked mortgages remain a designated vehicle to fund the Cost-of-Living Account for future benefits. Real return investments earned 8.09% in 2004 when compared to its benchmark of 5.10%.

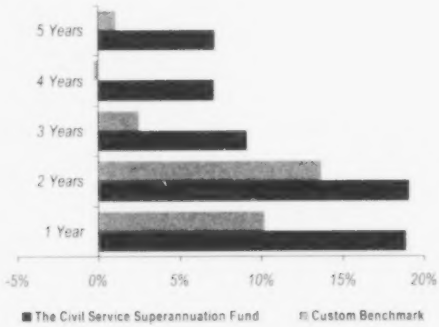
Real Return



Total Equity

The indices used to measure the performance of the Fund's stock portfolio are Canada's S&P/TSX 5% Capped Index (S&P/TSX 5% Cap), the U.S. Standard & Poor's 500 Index (S&P 500) and The Morgan Stanley Capital International Index for Europe, Australia and Far East (MSCI EAFE). Based on the Fund's SIP&P, an assumed equity mix of 24% Canadian, 16% U.S. and 9% EAFE countries for total Fund assets is considered normal. As a percentage of total equity investments, this translates into 49% Canadian, 33% U.S. and 18% EAFE countries. This is referred to as the benchmark for total equities.

Total Equity



Equities were a source of considerable value added during the year. The internally managed Canadian Equity and U.S. Equity teams, coupled with the international managers, all exceeded their respective benchmark returns by significant margins. The Fund earned 18.85% on its entire equity portfolio while its Policy benchmark return was closer to 10.19% over the same period.

The Board's investment in the locally targeted Frontier Capital Fund grew significantly as good investment opportunities became available. An additional commitment was made during the year which will result in a 70% increase in the Fund's investment in Manitoba based businesses over the next few years.

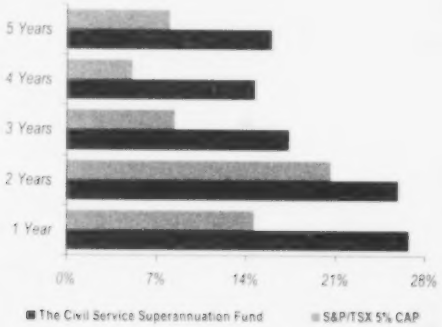
More changes to the equity portion of the Fund took place during 2004. Early in the year, the Board added a SmallCap Growth Canadian Equity manager to the portfolio mix as a style offset to the Fund's internal value style managers. In addition, a reduction in the external U.S. manager's position was made with a subsequent reinvestment into cash and equivalents in anticipation of better values in the future. One of the Board's EAFE managers also received additional funds during the year, effectively shifting resources from an area of expected underperformance to an area that is performing and experiencing growth, and complementing the Fund's return.

Only one external manager underperformed its benchmark. Conversely, all of the Board's internally managed equity portfolios added considerable value above their respective benchmark returns.

Canadian Equity

The internally managed Canadian Equity team, whose value-oriented approach has consistently proven to be a winner in recent years, has been a considerable factor in the 26.76% return. Another major contributor is the significant holding in the Board's oil and gas company, Superman Resources Inc., whose recent annual valuation and strong cash flow produced a 48.28% return in 2004. Lastly, the Board's entrance into the SmallCap Growth market in the spring offered another level of portfolio diversification and added value to this asset class.

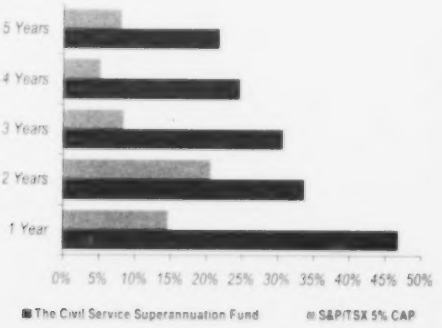
Canadian Equity



Private Equity

Investment decisions are being made by a group of seasoned professionals who are overseen by an equally qualified body of Investment Committee members. All the management groups the Board uses have a strong record of performance prior to the Board investing with them.

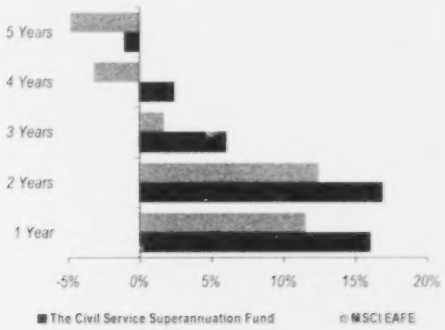
All of the Board's private equity investments, except its oil and gas company, have Manitoba based management, two of which have Manitoba specific investment mandates. The Board has always given preference to Manitoba based investments, but not at the expense of lower returns. Senior Board staff are involved in the oversight of each of these investments.



Non-North American Equity

The Board has diversified itself amongst four external managers whose mandates include Emerging Markets, EAFE and Asia (ex-Japan). The Emerging Markets manager, with a return of 19.23%, beat both their EMF index return of 16.41% as well as the EAFE benchmark of 11.49%. Combined, the managers provided the Fund with a 16.06% return. Both EAFE managers and the Asia (ex-Japan) manager also outperformed their respective indexes.

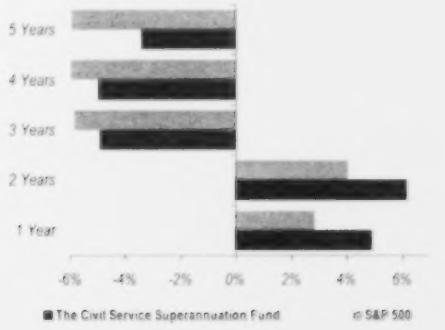
Non-North American Equity



U.S. Equity

The internally managed U.S. Equity team returned 6.79% during the year more than offsetting weaker performance from their external counterpart. While it seems that the divergence of investment styles between the two managers is narrowing, this asset class continued to add value for the Fund as it outperformed its S&P 500 benchmark by returning 4.89% versus 2.81% during the year.

U.S. Equity



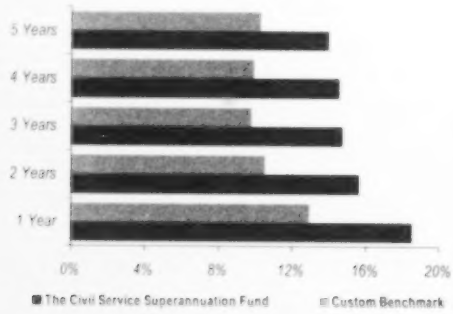
Real Estate

The total return on the $230 million dollars invested in Canadian real estate was 18.53%, compared to the benchmark of 12.94%.

The portfolio continues to be diversified by property type and location with investments from Newfoundland to Vancouver Island. Manitoba investments represent over 16% of portfolio assets and include several major properties such as Crossroads Station Shopping Centre and the office tower located at 155 Carlton Street in downtown Winnipeg.

A substantial portion of this year's total return was a result of an increase in property values driven by low interest rates and a strong demand for high quality properties by Real Estate Investment Trusts, institutional investors, foreign buyers and private investors. There's an expectation that returns will moderate somewhat over the next year with dividends making up a larger portion of the total return.

Real Estate



Real Estate Distribution by Geographic Location

Real Estate

The total return on the $230 million dollars invested in Canadian real estate was 18.53%, compared to the benchmark of 12.94%.

The portfolio continues to be diversified by property type and location with investments from Newfoundland to Vancouver Island. Manitoba investments represent over 16% of portfolio assets and include several major properties such as Crossroads Station Shopping Centre and the office tower located at 155 Carlton Street in downtown Winnipeg.

A substantial portion of this year's total return was a result of an increase in property values driven by low interest rates and a strong demand for high quality properties by Real Estate Investment Trusts, institutional investors, foreign buyers and private investors. There's an expectation that returns will moderate somewhat over the next year with dividends making up a larger portion of the total return.

Real Estate

Real Estate Distribution by Geographic Location

Investment Overview

Contractual Investments

- Underweighted the bond portion of the Fund
- Good security selection in the bond portfolio
- Built up cash reserves late in the year from sales of U.S. equities

Equity Investments

- Continued to underweight U.S. equities
- Overweighted foreign equities, particularly less developed markets
- Overweighted Canadian equities particularly oil and gas through the Board's private operating company, Superman Resources Inc.

Following a period of lacklustre returns over the first nine months of the calendar year, equity markets finally posted a strong December quarter. The main catalysts were a clear victory for President Bush in the November election and a break in oil prices from the mid-$50 level back to the low $40 level. While stock prices are not particularly cheap, market participants bought across the board during the last two months of the calendar year. Unfortunately, this strength did not carry into 2005. Interest rates eased in the long end, but continued to increase at the short end, led by the U.S. Federal Reserve. Economic activity was fairly strong in the U.S. and China and modestly positive in Europe and Japan.

In 2004, the Fund achieved approximately $105.1 million of value added.

The large amounts of fiscal and monetary stimulus applied to the U.S. economy over the past several years resulted in decent growth in the U.S. economy. This growth also had a positive effect on the major trading partners of the U.S. – Canada, China, and Japan. With both fiscal and monetary stimulus being significantly reduced, economic growth will not likely be as strong going forward.

The general strength of equity markets in the last two months of the year helped lift the benchmark, or expected return, for the Fund to 9.54%, comfortably above the actuarial requirements. Through a positive contribution from virtually all portfolios, active management added a further 4.17%, to bring the total return for the Fund to 13.71%. The 4.17% translates into approximately $105.1 million of value added. The largest single percentage of value added was from Superman Resources Inc., which produced a 48.28% return. The strategy of underweighting bonds and U.S. equities produced positive results as these assets, particularly U.S. equities, delivered relatively low returns. The emerging market portfolio started in 2003 delivered a strong 19.23% return in 2004. The overweight in real estate was also very positive, producing an 18.53% return. Once again, the internal managers added significant value over their respective benchmarks.

Strategy and Outlook

Continued volatility in the growth rate of the U.S. and Canadian economies is expected during 2005. On a relative basis, equity valuations in many of the emerging markets that the Fund is invested in are better than the larger, developed markets. Having said this, equities in general are not particularly inexpensively priced. In fact, none of the assets the Fund is permitted to invest in are inexpensively priced. In consequence, we expect to continue to build up cash reserves until better values become available. There still exist many imbalances in the world financial system which, together with fully priced valuations, should result in relatively low returns during 2005 along with some market volatility. The Board's experienced managers should continue to perform well in such an environment. In addition, two new members were added to the in-house team during the year, further strengthening this group.

Investing for Growth and Stability

Fund Investments

		2004 (*)	2003 (*)
Contractual Investments			
Cash and Short-term		**107,080**	137,974
Bonds and Debentures	**Canadian/Federal/Provincial**	**749,125**	682,916
	Corporate	**340,511**	318,666
	Asset-backed	**45,402**	51,163
Mortgages	**NHA**	**34,093**	35,760
	Conventional	**2,800**	4,055
Equity Investments			
Canadian Equities		**825,070**	664,598
U.S. Equities		**313,971**	291,048
Non-North American Equities		**299,292**	227,368
Real Estate		**228,800**	212,005
	Total Investments	**2,946,144**	2,625,553

* $Thousands

Member Services

The Board offers the following services to members and their families, financial planners, solicitors, etc.:

1. Individual Meetings

Members can meet with Board staff in Winnipeg and rural areas to discuss pension and insurance benefits. Laptop computers allow for services similar to those provided at the Board office in Winnipeg to be offered in rural areas like Brandon and Dauphin. Members are encouraged to bring anyone they wish to these meetings, like a spouse or financial planner.

2. Pre-Retirement Planning Seminars

The pre-retirement planning seminar program is a one-day session designed for employees who are beginning to plan for retirement. They are presented in major centres throughout Manitoba for groups of 15 to 50 people, and we encourage members to bring their spouses. The focus of these seminars is on pension and insurance benefits offered through the Board, although the presentation and course materials also include information on Federal benefits, estate planning, use of leisure time, and health considerations.

3. Employee Pension and Insurance Seminars

The employee information seminars focus on pension and insurance benefits, such as eligibility, entitlement to benefits, family protection, disability, death, marriage separation, etc. They are presented to groups of 15 to 250 employees of the government and its related boards, commissions, and agencies, and last for two to three hours.

4. Personal and General Inquiries

Board staff are available to answer questions by way of phone and written communication.

5. Electronic Communications

The Board has a website and online services, allowing members to view general information and get detailed personalized information at their convenience.

Highly qualified staff are available to meet your information needs with respect to enrolment, retirement, disability, termination and pension projections for estate and retirement planning.

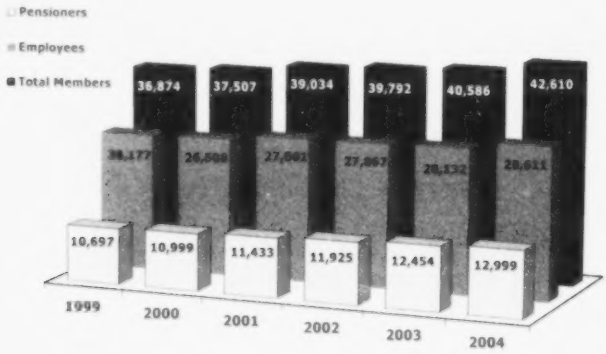
We ask that you have your personal identification number (PIN), social insurance number, or employee number ready when calling the office and that you make an appointment prior to visiting to assist us in serving you better.

Members/Retirements

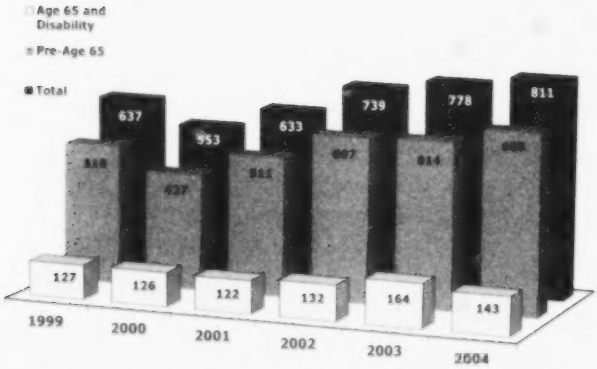
During 2004

- Total members increased by 2,024 to 42,610
- Employees/former employees participating in the Fund increased by 1,479 to 29,611
- Pensioners/beneficiaries increased by 545 to 12,999

Total Members



Retirements



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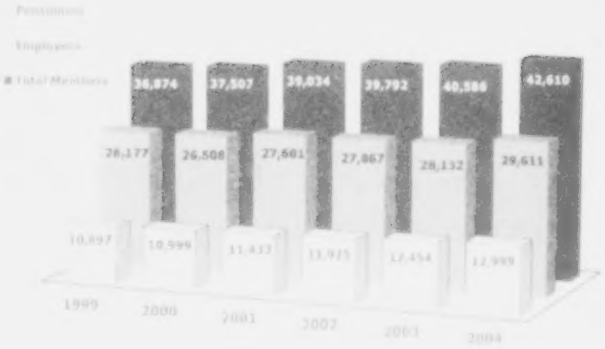


Retirements

Employees/Former Employees

The distribution of employees/former employees by employer as at December 31, 2004 was as follows:

Non-Matching Employers	Males	Females	Total
Province of Manitoba Civil Service	6,921	7,474	14,395
Manitoba Hydro-Electric Board	3,904	1,246	5,150
Manitoba Public Insurance	760	929	1,689
Red River College	497	547	1,044
Liquor Control Commission	295	249	544
Assiniboine Community College	125	170	295
Addictions Foundation of Manitoba	74	176	250
University College of The North	95	141	236
The Legal Aid Services Society of Manitoba	41	82	123
Manitoba Agricultural Credit Corporation	31	33	64
Manitoba Centennial Centre Corporation	39	15	54
Teachers' Retirement Allowances Fund Board	9	23	32
Communities Economic Development Fund	11	6	17
The Council on Post-Secondary Education	1	9	10
Manitoba Horse Racing Commission	3	2	5
Regional Health Authorities			
Brandon	68	196	264
Winnipeg	23	226	249
Central	23	99	122
Assiniboine	13	94	107
Parkland	17	74	91
Interlake	9	75	84
Nor-Man	1	32	33
North Eastman	3	28	31
South Eastman	4	27	31
Burntwood	1	16	17
Total Non-Matching	**12,968**	**11,969**	**24,937**

Matching Employers	Males	Females	Total
Manitoba Lotteries Corporation	515	414	929
Manitoba Housing Authority	175	121	296
Manitoba Crop Insurance Corporation	165	75	240
Manitoba Government and General Employees Union	28	34	62
The Civil Service Superannuation Board	24	27	51
Industrial Technology Centre	15	6	21
Dairy Farmers of Manitoba	7	14	21
Manitoba Pork Marketing Co-op Inc.	12	9	21
Food Development Centre	7	10	17
Manitoba Pork Council	7	8	15
Gaming Control Commission	7	4	11
Manitoba Floodway Authority	6	3	9
Manitoba Film and Sound	2	6	8
Manitoba Arts Council	-	7	7
Crown Corporations Council	2	3	5
Manitoba Chicken Producers	1	4	5
Manitoba Turkey Producers' Marketing Board	-	3	3
Manitoba Hazardous Waste Management Corporation	1	-	1
Total Matching	**974**	**748**	**1,722**

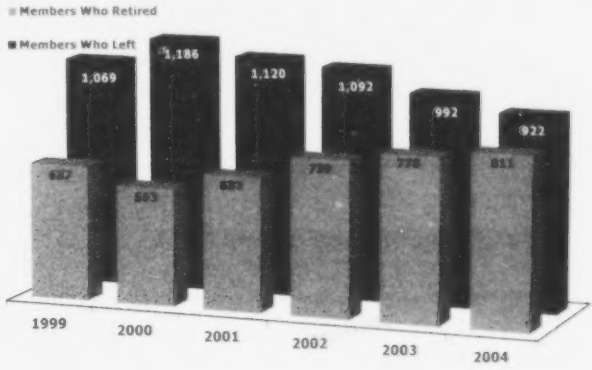
Other	Males	Females	Total
Deferred Pension Accounts	1,201	1,382	2,583
L.T.D. Recipients	60	128	188
Manitoba Reciprocal Agreements	111	68	179
Pending Reciprocal Agreements	-	2	2
Total Other	**1,372**	**1,580**	**2,952**

Total (Non-Matching, Matching, Other)	**15,314**	**14,297**	**29,611**

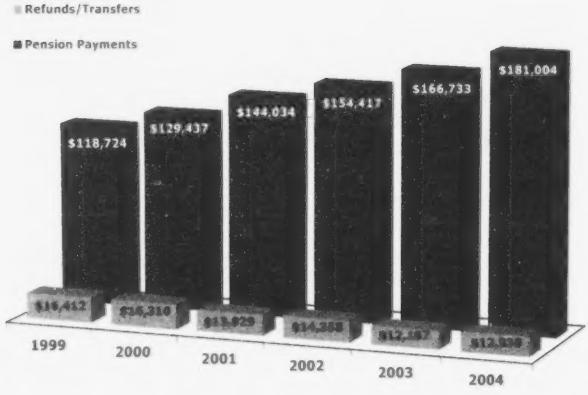
Paying Your Benefits

- 12,999 pensioners/beneficiaries were receiving pension benefits at the end of 2004
- $181.0 million was paid in pensions during 2004

Members No Longer Contributing



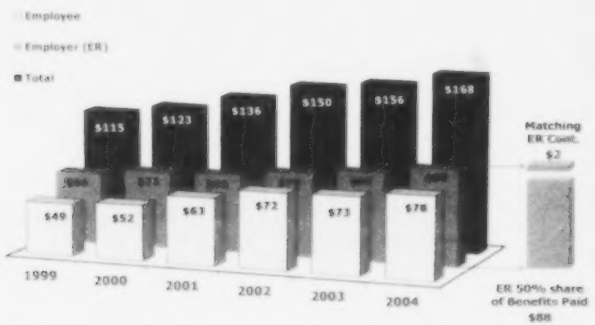
Payments from the Fund ($Thousands)



Employee Contributions/Employer Payments

- Employees contributed $77.8 million to the Fund compared to $72.7 million in 2003
- Employers paid $89.7 million to the Fund compared to $83.1 million in 2003
- 89.8% of your contributions fund basic pension and beneficiary benefits
- 10.2% of your contributions are allocated for cost-of-living benefits

Contributions and Payments ($Millions)



You and your employer share in the cost of the Plan. Each year you contribute the following:

- 6% up to Canada Pension Plan maximum earnings ($40,500 in 2004)
- 7% on earnings in excess of that amount

Employer payments include:

- Approximately 50% of pensions paid and Commuted Value transfers for terminations, marriage separations, and deaths for non-matching employers
- Payments made by matching employers

Paying Your Benefits

- 12,999 pensioners/beneficiaries were receiving pension benefits at the end of 2003
- $181.0 million was paid in pensions during 2003

Employee Contributions/Employer Payments

- Employees contributed $77.8 million to the Fund compared to $72.7 million in 2003
- Employers paid $89.7 million to the Fund compared to $83.1 million in 2003
- 89.8% of your contributions fund basic pension and beneficiary benefits
- 10.2% of your contributions are allocated for cost of living benefits

You and your employer deny to the cost of the Plan. Each year you contribute the following:

- 1.6% up to Canada Pension Plan contributory earnings ($40,500 in 2003)
- 7.5% on earnings in excess of this amount

Employer premiums are linked:

- Approximately 30% of pension paid and Commuted Value transfers for terminations, marriage separations and deaths for years with long employers
- Premiums made by your base employers

Cost-of-Living Allowance

- 10.2% of employee contributions and matching employer payments go to a separate indexing account to fund cost-of-living increases (COLA)
- The account funds approximately half the COLA increase while employers pay their share
- Pensioners and beneficiaries receive an annual increase to a maximum of ⅔ of the increase in th Canadian Consumer Price Index (CPI)
- The COLA paid July 1, 2004 was 1.33%

COLA Concerns

In 2003, the Board's actuary reported on the status of the COLA program. Following a discussion, the Board directed the General Manager and the Actuary to jointly write a letter to the parties who are responsible for negotiating changes to the Act expressing concerns with the continued viability of the program. A letter was sent to the Chair of the Employer Advisory Committee and the Employee Liaison Committee with a carbon to the Minister Responsible. The letter indicated that without changes to the current COLA program, sustainable indexing may not be possible over the next 10 years. To maintain the viability of the COLA program requires some form of restructuring. When inflation is low (about 1%) the account is able to pay COLA increases. Should inflation reach higher levels e.g. 4% (2.7% COLA), a solvency deficiency could result and payment of ⅔ CPI may not be possible. Discussions concerning COLA are ongoing.

Funding of Pension Benefits

The Fund's net assets available for benefits are primarily funded by:

- Investment income
- Employee contributions
- Employer payments

These assets are used to finance the payment of the Funds' portion of the basic pension, the indexing benefits, and the employers' share for several matching employers.

The majority of employers are non-matching and defer payment of their share of pension benefits un the benefit is paid.

The Fund consists of two separate accounts:

1. **Basic Benefits Account**
   - Finances the Fund's share of the basic pension benefit calculated as at a specific date (i.e. retirement, termination or death)

2. **Indexing Benefits Account**
   - Has been specifically established to finance the Fund's share of cost-of-living benefits paid members
   - 10.2% of employee contributions and matching employer payments are credited annually this Account

The cost-of-living benefit payments are limited to the extent that the indexing account is able to finance its share of each increase. Legislation limits the maximum annual cost-of-living adjustment to ⅔ of the increase in the CPI until the account can prefund anticipated adjustments for the next 20 years.

The net assets available to finance pension benefits, the obligations for pension benefits, and any surplus in the Basic Benefits Account and the funds available to finance future cost-of-living adjustments as at December 31, 2004 are summarized below.

	Fund (*)	Non-Matching Employers (*)	Obligations Total (*)
1. Net Assets Available (Net of Actuarial Reserves)			
Basic Benefits Account	2,436,914	See Note Below	
Indexing Benefits Account	144,361		
Total	**2,581,275**		
2. Actuarial Obligations for Pension Benefits			
Basic Benefits Account (including future benefits)	2,406,672	1,859,168	4,265,840
Indexing Benefits Account	118,749	113,032	231,781
Total	**2,525,421**	**1,972,200**	**4,497,621**
3. Actuarial Position/Funds Available			
Basic Benefits Account	30,242	See Note Below	
Indexing Benefits Account (funds available to finance future adjustments)	25,612		
Total	**55,854**		

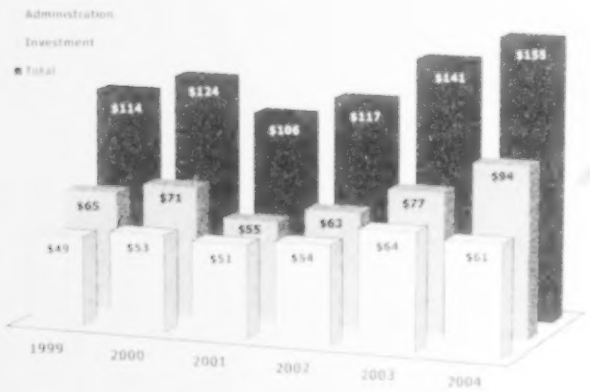
* $Thousands

Refer to Notes 4 and 5 of the Audited Financial Statements for additional information.
Note: The non-matching employer's portion of the pension liability is unfunded for most employers. Refer to Schedule 2 of the Audited Financial Statements for additional information.

Administration and Investment Cost

The Board's annual administration and investment cost per member continues to be one of the lowest in Canada for complex defined benefit plans. The total annual cost per member for 2004 was $155 consisting of $61 for administration and $94 for investment related expenses.

Annual Cost Per Member



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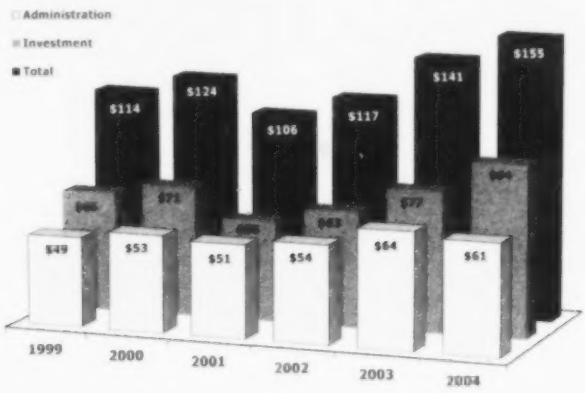


Six-Year Comparative Statistics

		1999 (*)	2000 (*)	2001 (*)	2002 (*)	2003 (*)	**2004 (*)**
Investments	Rate of Return	7.83%	9.76%	5.12%	1.47%	13.44%	**13.71%**
	Market Value	1,965,239	2,140,549	2,240,470	2,300,348	2,625,553	**2,946,144**
Contributions and Payments	Employee Contributions	49,308	52,250	63,601	71,526	72,744	**77,755**
	Employer Payments	65,911	70,693	72,642	77,794	83,080	**89,725**
	Total	**115,219**	**122,943**	**136,243**	**149,320**	**155,824**	**167,480**
Payments from the Fund	Pension Benefits Paid	118,724	129,437	144,034	154,417	166,733	**181,004**
	Refunds and Transfers	16,412	16,310	13,829	14,358	12,167	**12,930**
Expenses	Administrative	1,671	1,973	1,803	2,127	2,588	**2,600**
	Investment	2,398	2,664	2,164	2,490	3,142	**4,019**

* $Thousands unless otherwise noted

		1999	2000	2001	2002	2003	**2004**
Membership	Employees	26,177	26,508	27,601	27,867	28,132	**29,611**
	Pensioners and Beneficiaries	10,697	10,999	11,433	11,925	12,454	**12,999**
	Total Members	**36,874**	**37,507**	**39,034**	**39,792**	**40,586**	**42,610**
	Refunded/ Transferred Members	1,069	1,186	1,120	1,092	992	**922**
	Retirements	637	553	633	739	778	**811**

Management Report

The accompanying financial statements of The Civil Service Superannuation Fund are the responsibility of management and have been prepared in accordance with the accounting policies state in the notes to the financial statements. Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to safeguard the assets of the Fund. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to February 25, 2005.

The firm of Ellement and Ellement Ltd. has been appointed as consulting actuary for the Fund. The role of the actuary is to complete the triennial actuarial valuations of the Fund in accordance with actuarial practice and estimate the obligations for benefits for inclusion in the annual financial statements.

The Auditor General performs an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards. The resulting opinion is set out in the Auditors' Report attached to the financial statements.

Ultimate responsibility for the financial statements rests with the members of the Board. The Board established a Finance and Audit Committee to meet with Board staff and representatives of the Auditor General. It is the responsibility of the Finance and Audit Committee to review the financial statements, ensure that each group has properly discharged its respective responsibilities and make a recommendation to the Board regarding approval of the financial statements. The auditors have full and unrestricted access to the Board and to the Finance and Audit Committee.

The Board has reviewed and approved these financial statements.

On behalf of Management,

Robert H. Covernton
General Manager

Allen Borle
Director, Finance

Report of the Office of the Auditor General on The Civil Service Superannuation Fund

Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITOR'S REPORT

To the Legislative Assembly of Manitoba and
To the Members of the Civil Service Superannuation Plan

We have audited the statement of net assets available for benefits of The Civil Service Superannuation Fund as at December 31, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of The Civil Service Superannuation Fund as at December 31, 2004 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
February 25, 2005

Jon W. Singleton, CA•CISA
Auditor General

Statement of Net Assets Available for Benefits

as at December 31, 2004

($) Thousands	2004	2003
Assets		
Investments, Schedule 1, Note 2(b)	$2,946,144	$2,625,553
Equipment	44	47
Prepaid expenses	221	-
Debt due from the Province of Manitoba, Note 7	1,826	1,826
Receivables	1,499	1,174
Accrued dividends and interest	16,570	13,175
Total assets	**$2,966,304**	$2,641,775
Liabilities		
Accounts payable and accrued liabilities	$2,007	$4,033
The Province of Manitoba Unfunded Pension Liability Trust Account, Note 11	139,163	121,027
Manitoba Telecom Services Inc. in trust, Note 14	-	63
Correctional Officers' Trust Account, Note 8	3,040	2,456
Employer Trust Accounts, Note 9	39,438	34,299
Money Purchase Accounts Plan, Note 10	10,403	9,055
Total liabilities	**$194,051**	$170,933
Net assets available for benefits, Exhibit B	**$2,772,253**	$2,470,842

Chairperson of the Board

Chairperson, Finance and Audit Committee

Exhibit B - *The Civil Service Superannuation Fund*

Statement of Changes in Net Assets Available for Benefits

for the Year Ended December 31, 2004

($) Thousands	2004 Basic Benefits Account	2004 Indexing Benefits Account	2004 **Total**	2003 Total
Increase in assets				
Contributions, Schedule 2, Note 1(b)				
Employees	$70,165	$7,590	**$77,755**	$72,744
Employers	89,507	218	**89,725**	83,080
Total contributions	159,672	7,808	**167,480**	155,824
Net investment income, Schedule 3	79,365	20,492	**99,857**	88,475
Current period change in fair value of investments	229,857	-	**229,857**	202,014
Other	75	-	**75**	75
Total increase in assets	**$468,969**	**$28,300**	**$497,269**	$446,388
Decrease in assets				
Pension benefits paid	$168,043	$12,961	**$181,004**	$166,733
Refunds and transfers	12,930	-	**12,930**	12,167
Administrative expenses, net, Note 12	1,358	-	**1,358**	1,349
Transfer to employer trust accounts	566	-	**566**	252
Total decrease in assets	**182,897**	**12,961**	**195,858**	180,501
Increase in net assets	**$286,072**	**$15,339**	**$301,411**	$265,887
Net assets available for benefits at beginning of year	$2,311,532	$159,310	**$2,470,842**	$2,204,955
Increase in net assets	286,072	15,339	**301,411**	265,887
Net assets available for benefits at end of year, Exhibit A	**$2,597,604**	**$174,649**	**$2,772,253**	$2,470,842

1. Description of Plan

The following description of the Civil Service Superannuation Plan (the "Plan") is a summary only. For more complete information reference should be made to the Civil Service Superannuation Act (the "Act").

(a) General

The Civil Service Superannuation Board (the "Board") and the Civil Service Superannuation Fund (the "Fund") were established under the Act in May 1939. The Board is responsible for administering the Act. The Act defines the basis of funding and the operation of the Plan as a defined benefit plan, which provides pension benefits to employees of the Government of the Province of Manitoba and its agencies participating in the Plan.

(b) Funding

The Act requires that employees contribute 6% of pensionable earnings up to the Canada Pension Plan (CPP) maximum pensionable earnings and 7% of pensionable earnings above that maximum each year. In accordance with the Act, 89.8% of the employee contributions are allocated to the Basic Benefits Account and 10.2% are allocated to the Indexing Benefits Account. The matching employer contribution rate is at 5.1% on pensionable earnings up to the CPP maximum pensionable earnings and 7% of pensionable earnings above that maximum each year.

Under provisions of the Act non-matching employers defer contributing their share of employee pension benefits until they are billed for 50% of the benefit payments processed. However, non-matching employers are not billed for the cost of the pension formula improvement implemented in 2000. Matching employers similarly do not contribute toward the 2000 pension formula improvement.

The Fund's net assets available for benefits are primarily comprised of contributions from employees and matching employers together with investment income. These assets are intended to finance the Fund's portion of the Plan's actuarially determined obligation for pension benefits accruing to employees for service to the date of these financial statements. The non-matching employers' portion of the obligation for pension benefits as shown in Note 4 is unfunded.

One-half of the cost-of-living benefit payments are charged to the Indexing Benefits Account. All other benefit payments are charged against the Basic Benefits Account. The recovery of the non-matching employers' share is credited to the Basic Benefits Account.

The cost-of-living benefit payments are limited to the extent that the amount in the separate Indexing Benefits Account is actuarially able to finance one-half of that payment. Legislation limits the maximum annual adjustment to two-thirds of the increase in Consumer Price Index (Canada) until the Indexing Benefits Account can pre fund anticipated adjustments for the next twenty years.

(c) Pension Calculation
The lifetime pension calculation equals:

(i) 2% of a member's best five-year average pensionable earnings multiplied by pensionable service.
(ii) minus .4% of the average CPP maximum pensionable earnings for the same period multiplied by pensionable service since January 1, 1966.

The lifetime pension is subject to an overall maximum of 70% of the average earnings described in (i) above. Some pensions for members retiring prior to age 60 are subject to an early retirement reduction.

(d) Excess Contributions
On termination, retirement or death, if a member's contributions plus interest (less 10.2% allocated to the Indexing Benefits Account) exceed 50% of the commuted value of the pension for service after December 31, 1984, the excess contributions are payable to the member or the member's estate.

(e) Retirement
A member with ten or more years of qualifying service is eligible to retire at age 55.

A member with one or more years of qualifying service is eligible to retire at age 65.

All members must commence pension benefits no later than the last day of the calendar year in which the member attains 69 years of age.

Eligible members of the Province of Manitoba's Corrections Component may retire as early as age 50.

(f) Disability Pensions
A member with ten or more years of qualifying service is eligible to apply for a disability pension.

(g) Survivor's Benefits
A survivor's benefit is payable to a spouse or eligible survivor(s) of a member who dies with two or more years of qualifying service.

(h) Death Refunds
A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to the full extent of the individual's contributions plus interest. In a similar manner, a death refund is payable to the estate of a member where no survivor's pension is paid.

(i) Withdrawal Refunds
Upon application and subject to lock-in provisions, withdrawal refunds are payable when a member ceases to be employed by a participating employer. Members with two or more years of qualifying service may choose to leave their contributions in the Plan as a vested member.

(j) Income Taxes
The Plan is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

(k) Money Purchase Accounts Plan
The Board administers and maintains a separate Money Purchase Accounts Plan on a trust basis provided for in the Act.

2. Significant Accounting Policies

The significant accounting policies are summarized below:

(a) Basis of Presentation
The financial statements are prepared on a going-concern basis as a separate financial reporting entity, in accordance with Canadian generally accepted accounting principles. They are prepared to assist participants and others in reviewing the financial activities for the fiscal year.

(b) Investments
Investments are recorded at fair value on a trade date basis. Fair values of investments are determined as follows:

Fixed Income

(i) Short-term investments are valued at cost, which approximates market and short term equivalents are valued at market by independent sources.

(ii) Bonds and debentures are valued at market by independent sources.

(iii) National Housing Act (Canada) and other mortgages are valued based upon the present value of future discounted cash flows. Pooled mortgage funds are valued at market by the external manager.

Equity

(i) Publicly traded securities are valued at year end market prices as listed on the appropriate stock exchange.

(ii) Real estate investments are valued at the most recent appraisals or external manager's valuations of the underlying properties.

(iii) Petroleum and natural gas shares are valued based upon the discounted present value of proven petroleum and natural gas reserve information provided by external managers or are reflected at cost until such information is made available.

(iv) Venture capital investments are based on values established by the external managers or at cost where no valuation has been prepared.

(v) The Fund has subsidiaries, which are not consolidated but are included in the Summary of Investments, Schedule 1. Included in real estate shares are shares of fourteen subsidiaries whose value in aggregate totals $134,271. Included in petroleum and natural gas shares are shares of one subsidiary valued at $90,093.

(c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the year. Actual results could differ from those estimates.

(d) Foreign Currency Translation

The fair value of investments denominated in foreign currencies is translated into Canadian dollars at the exchange rate in effect at year-end and the resulting change is included in the current period change in fair value of investments. Revenue and expense transactions are translated at the exchange rates prevailing on the dates of the transactions and are included in investment income at the translated amounts.

(e) Equipment

Computer equipment costing less than $1 and all furniture purchases are charged to operations in the year of acquisition. Mid-range computer equipment cost is amortized over 5 years and microcomputer equipment cost is amortized over 3 years.

3. Risk Management

Fair values of investments are exposed to interest rate risk, credit risk and currency risk.

Interest rate risk refers to the impact of interest rate changes on the Fund's cash flows, financial position and income. To limit the exposure to interest rate fluctuation and to obtain the best possible return at acceptable risk, the Board established an investment asset mix policy of 45% fixed income and 55% equity.

The term to maturity and related market values of fixed income investments are as follows:

Term to Maturity	**2004**	2003
Less than one year	$119,743	$158,620
One to five years	409,827	355,940
Over five years	749,441	715,974
Total fixed income investments	**$1,279,011**	$1,230,534

Credit risk is the risk of loss from the failure of a counter party to discharge its contractual obligations. The Board limits credit risk by concentrating on high quality securities and adhering to a Statement of Investment Policies and Procedures. The Policy establishes investment ownership limits and acceptable credit ratings. For example, 95% of bonds and debentures must be rated single A or higher.

Currency risk relates to the possibility that foreign currency-denominated investments will change in value due to future fluctuations in foreign exchange rates. The Fund does, from time to time, hedge some of this exposure. As at December 31, 2004 external fund managers had entered into forward foreign exchange contracts valued at $26,980 (2003 - $nil) on behalf of the Fund.

4. Obligations for Pension Benefits

(a) Obligation for pension benefits

(i) Basic Benefits Account

In accordance with the Act, an Actuarial Valuation Report is required every three years. The stated purpose of the actuarial valuation is to:

- determine the financial position of the Fund as at the valuation date,
- determine the adequacy of the contributions being received in relation to the portion of the benefits financed by the Fund, and
- provide recommendations as to the future course of action based on the financial position revealed.

The triennial Actuarial Valuation Report on the Fund was completed as at December 31, 2001 by Ellement and Ellement Ltd., consulting actuaries.

The actuarial present value of the accrued basic pension benefit obligations, based on service to date, was estimated by the actuary as at December 31, 2004. The principal components of the changes in actuarial present value during the year were calculated and are as follows:

Basic Benefits Account

	Fund 2004	Non-Matching Employers 2004	Total 2004	Total 2003
Actuarial present value of accrued basic pension benefit obligations based on service to date, beginning of year	**$2,152,083**	**$1,719,676**	**$3,871,759**	$3,628,907
Benefits accrued	75,854	61,599	**137,453**	128,822
Benefits paid	(92,032)	(89,507)	**(181,539)**	(167,592)
Interest on accrued benefits	144,720	115,136	**259,856**	243,643
Change in actuarial reserves	(334)	(271)	**(605)**	37,979
Actuarial present value of accrued basic pension benefit obligations based on service to date, end of year	**$2,280,291**	**$1,806,633**	**$4,086,924**	$3,871,759

The non-matching employers' portion of the accrued basic pension benefit obligation is unfunded. These non-matching employers defer contributing their share of employee pension benefits until they are billed for 50% of the benefit payments processed. Non-matching employers are not billed for the cost of the pension formula improvement that was effective from September 1, 2000.

The Actuarial Valuation Report and the estimate at December 31, 2004 were based on the same set of assumptions. These assumptions were chosen for each of the factors that will affect the Fund financially in future years. Each assumption is based on relevant past experience studied over long periods of time to produce more reliable information. In accordance with the methodology set out in the triennial actuarial valuation, the actuary has phased in some additional reserves during the estimate period to provide for possible adverse deviations not explicitly identified in the Valuation.

Significant long-term actuarial assumptions used in the December 31, 2001 Valuation and in the determination of the present value of the accrued basic pension benefit obligations were:

Annual rate of return

(i)	inflation component	2.75%
(ii)	real rate of return	4.00%
		6.75%

Annual salary escalation rates

(i)	general increases	
	a) inflation component	2.75%
	b) productivity component	0.75%
		3.50%
(ii)	service, merit and promotional increases *	

* the rates used vary by age groupings from a high of 3.0% to a low of 0%

(ii) Indexing Benefits Account

The most recent annual Actuarial Valuation Report on the Indexing Benefits Account was prepared by Ellement and Ellement Ltd., consulting actuaries, as at December 31, 2003. The actuarial present value of the accrued indexing pension benefit obligations was estimated by the actuary as at December 31, 2004 and is as outlined below. The actuarial assumptions used are the same assumptions used for the Basic Benefits Account, except the annual rate of return is 6.25%.

Indexing Benefits Account

	Fund 2004	Matching Employers 2004	Total 2004	Total 2003
Actuarial present value of accrued indexing pension benefit obligations, beginning of year	**$114,723**	**$109,200**	**$223,923**	$192,850
Cost-of-living accrual effective July 1	9,704	9,237	**18,941**	37,462
Benefits paid	(12,961)	(12,337)	**(25,298)**	(22,564)
Interest on accrued benefits	7,372	7,017	**14,389**	13,690
Change in actuarial reserves	(89)	(85)	**(174)**	2,485
Actuarial present value of accrued Indexing pension benefit obligations, end of year	**$118,749**	**$113,032**	**$231,781**	$223,923

(b) Fund's Asset Valuation

The actuary adjusts net assets available for benefits to smooth investment gains (losses) over five years and to recognize amounts reserved for future indexing benefits.

The actuarial asset values used in the estimate of the Fund's pension obligations were:

	Basic Benefits 2004	Indexing Benefits 2004	Total 2004	Total 2003
Net assets available for benefits, Exhibit B	$2,597,604	$174,649	**$2,772,253**	$2,470,84
Amount reserved for future indexing benefits		(18,387)	**(18,387)**	(18,551
Adjustment for the actuarial value of assets	(160,690)	(11,901)	**(172,591)**	(41,941
Actuarial value of net assets available for benefits	**$2,436,914**	**$144,361**	**$2,581,275**	$2,410,350

5. Additional Actuarial Information

(a) Total Actuarial Pension Liabilities For The Basic Benefits Account

The actuary determines the actuarial liability for net future service as a component in the actuari valuation completed for funding purposes. The total actuarial Basic Benefit pension liabilities at December 31, 2004 have been estimated based on service to date and net future service as follow

	Fund 2004	Non-matching Employers 2004	Total 2004	Total 2003
Service to date, Note 4	$2,280,291	$1,806,633	**$4,086,924**	$3,871,759
Net future service	126,381	52,535	**178,916**	167,602
Total actuarial pension liabilities	**$2,406,672**	**$1,859,168**	**$4,265,840**	$4,039,361

(b) Basic Benefits Actuarial Position (Fund Only)

The Fund had an estimated going concern actuarial surplus of $30,242 as at December 31, 2004 (2003 – $3,933) in the Basic Benefits Account, after including pension benefit obligations for service to date and for future service actuarial liabilities.

(c) Indexing Benefits Actuarial Surplus (Fund Only)

The funds available to finance future cost-of-living increases in the Indexing Benefits Account were estimated to be $25,612 as at December 31, 2004 (2003 - $21,222).

6. Employer Assets Provided for Pension Obligations

Readers should refer to the latest audited employer financial statements, including financial statements of the Government of the Province of Manitoba and its participating agencies, to determine how employers fund pension obligations.

7. Debt due from the Province of Manitoba

Under Section 24(1) of the Act, the Province of Manitoba assumed an accrued liability of $1,826 for its employees and pensioners as at May 1, 1939. The Province of Manitoba pays semi-annual interest at 4% per annum on this amount.

8. Correctional Officers' Trust Account

Effective November 19, 1996 employees who are members of the Province of Manitoba's Corrections Component are required to contribute an additional 1% of pensionable earnings. These additional contributions are credited to this trust account and are intended to fund the additional pension benefits for eligible employees who may retire as early as age 50 with no reduction for early retirement providing the total of age and qualifying service equals 75 or greater.

9. Employer Trust Accounts

The Fund is responsible for providing enhanced benefits enacted in the 1992 legislation agreed to by the Employee Liaison Committee and the Employer Pension Advisory Committee. These benefits are 100% financed from the Fund's net assets available for benefits. To facilitate this funding, trust accounts were established for non-matching employers participating in the Fund for their share of the actuarial valuation of these future benefit enhancements. Specific contributions from eligible employees are being transferred to the applicable trust account.

10. Money Purchase Accounts Plan

Effective January 2, 1985 a separate Money Purchase Accounts Plan was established to enhance the portability of pensions. Contributors include employees, recipients of superannuation allowances, annuities or pensions payable under the Act, or persons on whose behalf the Board is required or requested to transfer moneys to this Plan. Refunds are made upon written request by the contributor. Administrative costs are recovered by the Board.

11. The Province of Manitoba Unfunded Pension Liability Trust Account

The Balanced Budget, Debt Repayment and Taxpayer Protection Amendment and Consequential Amendments Act came into effect on August 18, 2000. This Act requires the Province of Manitoba (the "Province") to establish a fund and to make payments to the established fund.

Under the terms of a March 6, 2001 agreement between the Province and the Board, the Province established a fund with the Board and the Province is making the required payments to this fund. As well, the Province is making payments to this fund that are related to the Special Operating Agencies unfunded pension liabilities. Payments received by the Board from the Province are held by the Board in trust for and on behalf of the Province and are invested by the Board on behalf of the Province. The

payments received are not assets of the Plan and accordingly, they are accounted for by the Fund in the Unfunded Pension Liability Trust Account. This trust account earns investment income at a rate return equal to the rate of return earned by the Fund. The Board receives an investment management fee for its services. The payments made by the Province to the Board do not reduce the accrued pens benefit obligations of the Fund.

12. Administrative Expenses

	2004	200
Salaries and fringe benefits	$2,704	$2,5
Professional fees	166	2
Office and administration	895	7
	3,765	3,5
Less: recoveries from other administered funds		
regular administration	(1,165)	(97
Fund administrative expenses	2,600	2,5
Less: recoveries from non-matching employers	(1,242)	(1,23
Administrative expenses, net	**$1,358**	$1,3

13. Managed Investment Funds

The Board acts as investment manager for other funds, which are separate and have been excluded fr these financial statements.

The fair values of these other funds under administration on a trade date basis at December 31 are:

	2004	200
The Manitoba Hydro Pension Fund	$605,586	$532,1
Joint Board of Trustees of The Municipal Employees Benefits Program	352,441	311,7
The Public Service Group Insurance Fund	129,519	115,7
Centra Gas Manitoba Inc.	58,077	50,1
Workers Compensation Board of Manitoba	65,710	11,9
Winnipeg Child and Family Services Employee Benefits Retirement Plan	33,853	
	$1,245,186	$1,021,7

The Board recovers its administrative costs for this service by charging an investment management fe which is deducted from investment management expenses in Schedule 3.

14. Privatization of the Manitoba Telephone System

On January 1, 1997, Manitoba Telephone System became a publicly traded corporation named Manitoba Telecom Services Inc. (MTS) and it assumed all responsibility for pension benefit payments for its employees and former employees. The transfer of assets to the new MTS plan was negotiated in the amount of $423,946 and was determined in accordance with the Pension Assets Transfer regulation, based on the December 31, 1996 actuarial valuation of the Fund. In July 2004, all residual investments administered by the Board on behalf of MTS were liquidated. Each party received its pro rata share of the proceeds.

Schedule 1 - *The Civil Service Superannuation Fund*

Summary of Investments

as at December 31, 2004

($) Thousands	2004	2003
Fixed income investments		
Cash and Short-term		
Government and corporations	$107,080	$137,97
Bonds and debentures		
Pooled fund	1,135,038	1,052,74
Mortgages		
National Housing Act (Canada)	2,788	3,76
Other	2,800	4,05
Index-linked	31,305	31,99
Total fixed income investments	**1,279,011**	**1,230,53**
Equity investments		
Pooled funds		
Domestic	724,876	586,95
Foreign	613,263	518,41
Real estate		
Participating bonds	74,515	67,66
Shares, Note 2(b)(v)	154,285	144,12
Units of pooled real estate	-	20
Administered for Manitoba Telecom Services Inc., Note 14	-	6
Petroleum and natural gas shares, Note 2(b)(v)	90,093	73,10
Venture capital	10,101	4,54
Total equity investments	**1,667,133**	**1,395,01**
Investments, Exhibit A	**$2,946,144**	**$2,625,55**

Schedule of Contributions

for the Year Ended December 31, 2004

($) Thousands	2004 Employers	2004 Employees	2004 Total	2003 Total
Non-matching employers, Note 1 (b)				
Province of Manitoba Civil Service	$61,645	$39,452	$101,097	$92,565
Manitoba Hydro-Electric Board	21,806	17,789	39,595	37,721
Manitoba Public Insurance Corporation	2,177	4,172	6,349	5,894
Liquor Control Commission	2,187	1,185	3,372	3,167
Red River College	74	3,007	3,081	2,758
Addictions Foundation of Manitoba	497	683	1,180	1,013
Community Colleges				
Assiniboine Community College	5	868	873	756
University College of the North	-	713	713	641
Regional Health Authorities				
Brandon	-	808	808	801
Winnipeg	-	758	758	799
Central	-	381	381	341
Assiniboine	-	323	323	297
Interlake	-	271	271	260
Parkland	-	252	252	279
South Eastman	-	106	106	106
North Eastman	-	104	104	92
Nor-Man	-	96	96	94
Burntwood	-	46	46	50
South Westman	-	-	-	13
The Legal Aid Services Society of Manitoba	71	444	515	513
Manitoba Agricultural Credit Corporation	173	194	367	340
Manitoba Centennial Centre Corporation	238	112	350	338
Teachers' Retirement Allowances Fund Board	133	100	233	164
The Council on Post Secondary Education	93	36	129	77
Communities Economic Development Fund	34	59	93	120
Workers Compensation Board	32	-	32	35
Manitoba Horse Racing Commission	9	14	23	15
Total non-matching employers	**$89,174**	**$71,973**	**$161,147**	**$149,249**

Schedule of Contributions

For The Year Ended December 31, 2004

		2004		2003
($) Thousands	Employers	Employees	Total	Total
Total non-matching employers, continued	**$89,174**	**$71,973**	**161,147**	149,24
Matching employers, Note 1 (b)				
Manitoba Housing Authority	523	598	1,121	1,08
Manitoba Lotteries Corporation	465	541	1,006	2
Manitoba Crop Insurance Corporation	371	421	792	7
Manitoba Government and General Employees Union	224	246	470	4
Civil Service Superannuation Board	188	204	392	3
Industrial Technology Centre	67	74	141	1
Manitoba Milk Producers	53	60	113	1
Manitoba Pork Marketing Co-Op Inc.	50	59	109	1
National Agri-Food Technology Centre	51	58	109	
Gaming Control Commission	43	48	91	
Manitoba Pork Council	35	45	80	
Crown Corporations Council	21	23	44	
Manitoba Film and Sound	16	18	34	
Manitoba Arts Council	14	16	30	
Manitoba Chicken Producers	12	14	26	
Manitoba Turkey Producers' Marketing Board	5	6	11	
Manitoba Hazardous Waste Management Corporation	4	5	9	
Economic Innovation and Technology Council	–	–	–	
Total matching employers	**2,142**	**2,436**	**4,578**	3,5
Other				
Employees on loan	1	1	2	
Employees on workers compensation	–	3	3	
Reciprocal agreement - transfers in	–	1,953	1,953	1,7
Reciprocal agreement - transfers out	(1,594)	(2,217)	(3,811)	(2,61
Repayment of contributions previously refunded	–	61	61	
Contributions based on prior non-pensionable employment	2	2,909	2,911	3,5
Transfer from Money Purchase Accounts Plan	–	636	636	
Total other	**(1,591)**	**3,346**	**1,755**	3,0
Total contributions, Exhibit B	**$89,725**	**$77,755**	**$167,480**	$155,8

Schedule of Investment Income

For The Year Ended December 31, 2004

($) Thousands	2004	2003
Fixed income		
Short term	$2,752	$3,566
Bonds and debentures	59,374	59,704
Mortgages	2,900	3,123
Total fixed income	**65,026**	**66,393**
Equity income		
Pooled funds	31,256	23,006
Real estate	15,805	13,047
Petroleum and natural gas shares	14,598	5,603
Total equity income	**61,659**	**41,656**
Gross investment income	**126,685**	**108,049**
Less:		
Investment management expenses, net, Note 13	4,019	3,142
Transfer to Province of Manitoba unfunded pension liability trust account	16,701	11,168
Transfer to Correctional Officers' trust account	348	275
Transfer to Employer trust accounts	4,636	4,011
Transfer to Money Purchase Plan accounts	1,085	946
Transfer to Employee future benefits obligations	39	32
	26,828	**19,574**
Net investment income, Exhibit B	**$99,857**	**$88,475**

Notes

The Civil Service Superannuation Board (CSSB), 2005.

The Civil Service Superannuation Board
1200-444 St. Mary Avenue
Winnipeg, MB R3C 3T1
Phone: 204-957-8722 Fax: 204-945-0237

www.cssb.mb.ca

The Civil Service Superannuation Board
2004 Report to Members

We are pleased to provide you with this summary of The Civil Service Superannuation Board's (Board) 2004 Annual Report. You can also request a copy of the full Annual Report by contacting the Board office, or it can be viewed on our website at www.cssb.mb.ca.

Highlights	2004 (*)	2003 (*)
Financial		
Rate of Return on Investments	**13.71%**	13.44%
Investments at Market Value	**2,946,144**	2,625,553
Net Investment Income	**99,857**	88,475
Current Period Change in Fair Value of Investments	**229,857**	202,014
Employee Contributions	**77,755**	72,744
Employer Payments	**89,725**	83,080
Pension Payments	**181,004**	166,733
Refunds and Transfers	**12,930**	12,167
* $Thousands unless otherwise noted		
Membership		
Employees and Former Employees	**29,611**	28,132
Pensioners and Beneficiaries	**12,999**	12,454
Total Members	**42,610**	40,586

Member Services

The Board offers the following services to members and their families:

- Individual meetings
- Pre-Retirement Planning Seminars
- Employee Pension and Insurance Seminars
- Personal and General Enquiries
- Electronic Communications

You may make an appointment to view any of the following at the Board office:

- A copy of The Civil Service Superannuation Act (the Act) and all amendments
- The Annual Information Return submitted each year to the Pension Commission of Manitoba
- A copy of the latest Actuarial Valuation Report

Online Services

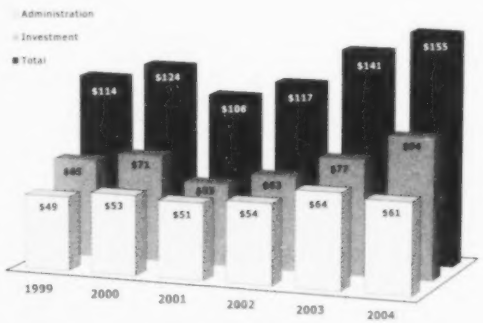
With over 5,600 registered members and over 147,000 pension and termination estimates completed, our Online Services has proven to be very popular.

To register, print the Online Services Registration Form from our website, complete it and return it to our office.

Administration and Investment Cost

The Board's annual administration and investment cost per member continues to be one of the lowest in Canada for complex defined benefit plans.

Annual Cost Per Member



Contents

Message from the Chair 2
Message from the General Manager 2
Governance 3
Investment Overview 3
Strategy and Outlook 3
Private Equity 3
Board and Investment Committee Members 4
COLA Concerns 4
Contact 4

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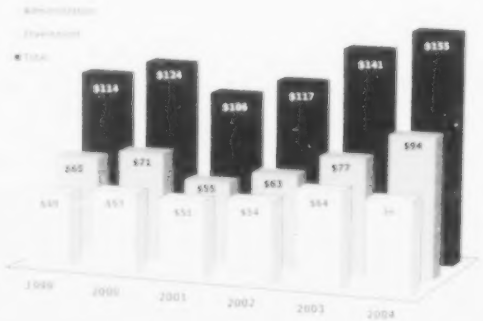


Contents

Message from the Chair 2
Message from the General Manager 2
Governance 3
Investment Overview 3
Strategy and Outlook 3
Private Equity 3
Board and Investment Committee Members 4
COLA Concerns 4
Contact 4

Message from the Chair

Gary N. Coopland

One interpretation for the term superannuation fund is that it is an investment vehicle that operates primarily to provide benefits for retirement. For this Board, that means the Fund must be managed with many checks and balances supported by information systems to govern how prudent decisions should be made. With the support of the Board, the staff becomes familiar with changing market trends through ongoing education, research and networking initiatives. This results in up-to-date procedures and governance policies that are used as guidelines to ensure the Fund is managed effectively.

Policies are monitored regularly by a group of investment and accounting professionals to ensure they are followed. On a quarterly basis, the status of compliance is reported to the Board through detailed reports. Accountability, transparency and good governance remain key goals in the ongoing stability and management of your Fund.

Effective management includes the continuous process of making service improvements. Through enhancements to the Board's online services, more and more information can be accessed from the comfort of your home while at the same time preserving the quality and diversity of the services offered by the Board. One online service, the Pension Estimator, was initially introduced in 2002 to 2,350 registered members who requested more than 24,000 different estimates. Two years later, nearly 64,000 estimates were requested by 5,650 registered members. These estimates use personal information and are performed by registered members in a secure Internet environment. The Board's new website, due to be released in 2005, will include enhancements to online services as well as more detailed information on how your money is invested.

Investments performed extremely well once again this year. A Fund return of 13.71% in 2004 was more than double the estimated actuarial requirement. While this level of investment returns is extremely pleasing, they may not be sustainable for long periods of time. When surpluses are generated, they can be reserved for periods when investment returns are not as high or they can be used to enhance benefits. Being proactive about the future can help reduce the threat of trimming benefits and costs in turbulent times.

A portion of this year's value added performance was a direct result of the Board's participation in private equity. These investments are not publicly traded and are less liquid than most investments. As a result, the Board takes caution by ensuring that they only invest in private equity after a lengthy process of due diligence and then only when partnered with those who have a stake in the investment, and are also experts in their respective fields. Furthermore, the Board requires active representation in the decision-making processes of these investments and generally has a prior longstanding relationship with the principles. These assets are valued annually by independent external professionals, which allow the Board to be confident in exactly how their private equity holdings are performing. At December 31, 2004, the Board has four such investments representing just over 3.42% of Total Fund assets, the largest being an oil and gas company in Alberta.

The Board has created, through retention policies and an ongoing commitment to professional development, a strong team of benefits and investment management experts. On behalf of the Board and myself, I would like to thank these team members once again for their dedication, professionalism and commitment to unparalleled quality so that you can continue to enjoy a superior benefits program.

Message from the General Manager

Robert H. Covernton

The Board has a major role in the financial well being of over 42,000 Fund members (52,000 including all Plans under administration), their families and beneficiaries who expect it to deliver on the pension promise. A steady stream of pension income from a strongly managed defined benefit pension program is a way to achieve this financial stability during retirement.

The Board continues to be diligent to ensure measurable standards are in place. Their goal is to earn above-average rates of return over a diversified portfolio. At a minimum, the Board's aim is to earn the Actuary's estimated required rate of return. Any performance above this benchmark can either be used to fund future benefits improvements or as a reserve for years when investment returns are not as favourable.

The strength of this program was evident once again in 2004 by the Fund's 13.71% investment rate of return. During the year, more than $105 million was added into the pool of money over and above what would have been expected had the Fund managers not been active in managing your money.

While the Board believes that its communications to members has been exceptional, we would like to focus on improving accountability through detailed audits and independent reviews by other practitioners. Your Board is comprised of skilled individuals and professionals who work tirelessly through Board and committee meetings with only one goal in mind - the best interest of stakeholders of the Plan.

Ongoing commitment to professional development is a key component to ensuring the Plan continues to provide you with the best level of benefits. Education and networking opportunities are supported by the Board in an effort to help this happen. To keep its focus on the future, the Board must plan to maintain its structures, processes and operations to support and encourage growth. This is accomplished by ensuring staff have the optimum combination of knowledge, skills, training, information and tools they need to succeed in continuing to deliver outstanding service on a consistent basis.

The Board is dedicated to maximizing the value of technology in innovative, proactive and personalized services to members, employers and other stakeholders. Today, the Internet has created a conduit through which information may be securely transported with relative ease. Taking advantage of creative systems development and available communications protocols, the Board has provided its stakeholders with the means to obtain personal benefits information on a real-time basis from any computer in the world with an Internet connection. We want to encourage members to utilize electronic services while continuing to provide answers and information in person, in printed form or over the phone.

Ultimately, our goal is to provide accurate, timely, personal and attentive service in a cost effective manner, while keeping in mind the importance of providing outstanding service which consistently meets member expectation. I am very privileged to be associated with a staff that works diligently towards our goal of continuing to deliver the pension promise into the future.

Governance

Governance continued to be at the forefront of initiatives during the year. At the beginning of 2004, the Board engaged an independent accounting firm to conduct its first AIMR Verification Audit. The Board received an unqualified opinion that its methodology for calculating Fund rates of return was being performed in accordance with CFA Institute (AIMR) Standards. This audit was conducted once again in early 2005 and will continue on an annual basis.

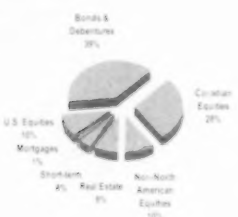
During 2004, the SIP&P was reviewed by independent consultants. After a lengthy process of due diligence and numerous meetings with the consultant, a new SIP&P was approved and will be implemented in April 2005.

Many investment policies were updated and approved by the Board and its Investment Committee throughout the year. These included:

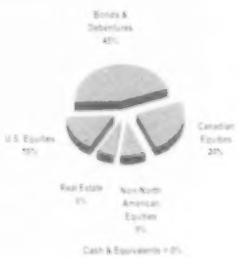
- Proxy Voting Policy and Guidelines
- Investment Manager Mandates
- Statement of Investment Policies and Procedures (SIP&P)
- Soft Dollar Standards
- Conflict of Interest and Standard of Conduct Guidelines
- Professional Conduct Policy

These policies are monitored regularly and independently by a department of investment and accounting professionals. Once each calendar quarter, the Board and its Investment Committee receive compliance reports which provide useful information and assist them in meeting their fiduciary responsibilities.

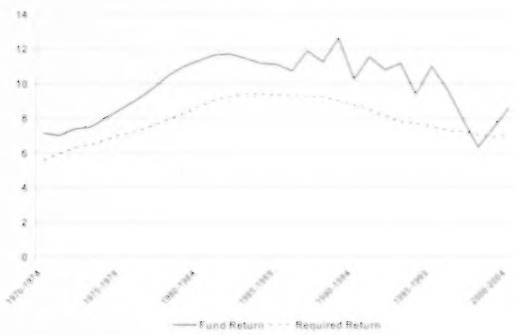
Fund Investments



Investment Policy



Five-Year Moving Average



Investment Overview

Following a period of lacklustre returns over the first nine months of the calendar year, equity markets finally posted a strong December quarter. The main catalysts were a clear victory for President Bush in the November election and a break in oil prices from the mid-$50 level back to the low $40 level. While stock prices are not particularly cheap, market participants bought across the board during the last two months of the calendar year. Unfortunately, this strength did not carry into 2005. Interest rates eased in the long end, but continued to increase at the short end, led by the U.S. Federal Reserve. Economic activity was fairly strong in the U.S. and China and modestly positive in Europe and Japan.

The large amounts of fiscal and monetary stimulus applied to the U.S. economy over the past several years resulted in decent growth in the U.S. economy. This growth also had a positive effect on the major trading partners of the U.S. – Canada, China, and Japan. With both fiscal and monetary stimulus being significantly reduced, economic growth will not likely be as strong going forward.

The general strength of equity markets in the last two months of the year helped lift the benchmark, or expected return, for the Fund to 9.54%, comfortably above the actuarial requirements. Through a positive contribution from virtually all portfolios, active management added a further 4.17%, to bring the total return for the Fund to 13.71%. The 4.17% translates into approximately $105.1 million of value added. The largest single percentage of value added was from Superman Resources Inc., which produced a 48.28% return. The strategy of underweighting bonds and U.S. equities produced positive results as these assets, particularly U.S. equities, delivered relatively low returns. The emerging market portfolio started in 2003 delivered a strong 19.23% return in 2004. The overweight in real estate was also very positive, producing an 18.53% return. Once again, the internal managers added significant value over their respective benchmarks.

Strategy and Outlook

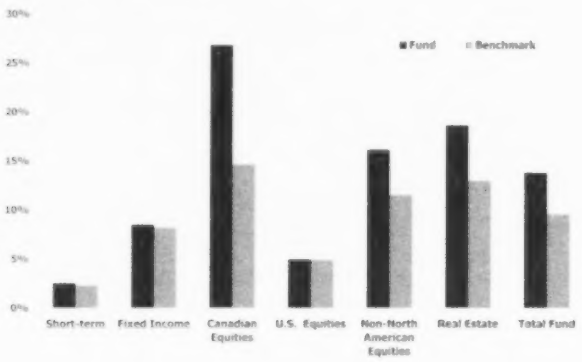
Continued volatility in the growth rate of the U.S. and Canadian economies is expected during 2005. On a relative basis, equity valuations in many of the emerging markets that the Fund is invested in are better than the larger, developed markets. Having said this, equities in general are not particularly inexpensively priced. In fact, none of the assets the Fund is permitted to invest in are inexpensively priced. In consequence, we expect to continue to build up cash reserves until better values become available. There still exist many imbalances in the world financial system which, together with fully priced valuations, should result in relatively low returns during 2005 along with some market volatility. The Board's experienced managers should continue to perform well in such an environment. In addition, two new members were added to the in-house team during the year, further strengthening this group.

Private Equity

Investment decisions are being made by a group of seasoned professionals who are overseen by an equally qualified body of Investment Committee members. All the management groups the Board uses have a strong record of performance prior to the Board investing with them.

All of the Board's private equity investments, except its oil and gas company, have Manitoba based management, two of which have Manitoba specific investment mandates. The Board has always given preference to Manitoba based investments, but not at the expense of lower returns. Senior Board staff are involved in the oversight of each of these investments.

One-Year Rates of Return



Board and Investment Committee Members

Board Members

Chair
Gary N. Coopland, Retired, Vice-President Investments, The Great-West Life Assurance Company

Employee Representatives
Ray Erb, Manitoba Government and General Employees Union
Katherine Johnson, Manitoba Finance
Bill Loxton, Manitoba Hydro-Electric Board
Susan Rusk, Intergovernmental Affairs and Trade

Employer Representatives
Tom Bleasdale, Retired, Assistant Deputy Minister of Labour
Gabriel Forest, F.C.A., Chartered Accountant
Carmele Peter, Solicitor
Dr. G. Les E. Ullyot, Family Physician

As the Plan Trustee, the Board is required to:

- Manage the Fund in accordance with the rules of the Pension Plan, governing legislation, and common law in the interest of Plan members and their beneficiaries
- Obtain an actuarial valuation every three years
- Regularly review its investment policy
- Obtain an independent audit each year
- Prepare an Annual Report
- Ensure that the Board staff fulfil the investment and administrative obligations set out in the Act and comply with the requirements of both the Pension Benefits Act of Manitoba and the Income Tax Act
- Delegate the day-to-day management to the General Manager and staff
- Provide overall direction and approval of policy items

Investment Committee Members

Members of the Investment Committee are appointed by the Lieutenant Governor in Council based on their investment expertise, legislative requirements or, in the case of the employee representative, elected by the employee representatives of the Board.

Gary N. Coopland, Chair
Dick Archer, Chair, I.G. Investment Management Ltd.*
Ewald Boschmann, Deputy Minister of Finance, Province of Manitoba^
Robert H. Covernton, General Manager, Board^
Charlie Curtis, Retired, Deputy Minister of Finance, Province of Manitoba*
Ray Erb, Manitoba Government and General Employees Union (employee representative)^
Peter G. Munro, Executive Vice-President, Chief Investment Officer, The Great-West Life Assurance Company*
Stan Susinski, Retired, Chief Investment Officer, Alberta Finance*

The Investment Committee also manages the assets of the Manitoba Hydro Employer Fund and three Centra Gas portfolios. Manitoba Hydro appointed the following person as their representative to those committees in conjunction with the above members.

Vince Warden, Vice-President, Finance and Administration and CFO, Manitoba Hydro-Electric Board

* Appointed based on investment expertise
^ Required by legislation

COLA Concerns

In 2003, the Board's actuary reported on the status of the COLA program. Following a discussion, the Board directed the General Manager and the Actuary to jointly write a letter to the parties who are responsible for negotiating changes to the Act expressing concerns with the continued viability of the program. A letter was sent to the Chair of the Employer Advisory Committee and the Employee Liaison Committee with a carbon to the Minister Responsible. The letter indicated that without changes to the current COLA program, sustainable indexing may not be possible over the next 10 years. To maintain the viability of the COLA program requires some form of restructuring. When inflation is low (about 1%) the account is able to pay COLA increases. Should inflation reach higher levels e.g. 4% (2.7% COLA), a solvency deficiency could result and payment of ⅔ CPI may not be possible. Discussions concerning COLA are ongoing.

Contact

The Civil Service Superannuation Board

1200-444 St. Mary Avenue
Winnipeg MB R3C 3T1

Telephone: 204-957-8722
Fax: 204-945-0237
Canada-Wide Toll-Free Number: 1-800-432-5134

Internet site: www.cssb.mb.ca
E-mail: askus@cssb.mb.ca